

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of )  
 )  
Local Exchange Carriers' Rates, )  
Terms, and Conditions for )  
Expanded Interconnection for )  
Special Access )

CC Docket No. 93-162

93-162

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THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY  
DIRECT CASE IN RESPONSE TO ISSUES DESIGNATED FOR  
INVESTIGATION

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Pursuant to the Federal Communications Commission's ("Commission's") Order,<sup>1</sup> The Southern New England Telephone Company (SNET) hereby submits its direct case in response to issues designated for investigation. In that Order, the Commission designated sixteen issues for investigation. SNET has provided herein its response to those issues.

**A. Are the rate levels established in the LECs' physical and virtual expanded interconnection tariffs excessive?**

The rate levels established by SNET are reasonable and fully justified in accord with the Commission's rules.

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<sup>1</sup> In the Matter of Local Exchange Carriers' Rates, Terms, and Conditions for Expanded Interconnection for Special Access, Order Designating Issues For Investigation, DA 93-951, CC Docket No. 93-162, released July 23, 1993, (Order).

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## General Support Requirements

### (a) Tariff Review Plan

### (b) Itemized Cost Information

SNET's tariff review plan (TRP) is attached as Attachment 1 to SNET's Direct Case. A diskette has also been filed in LOTUS 1-2-3 format as required by the Commission. Also included in Attachment 1 is supporting information for each rate element in response to (b) itemized cost information. Attachment 1 also includes a chart that partitions each rate element's costs among the relevant functions. The chart demonstrates that the sum of the unit costs and rates of the partitioned parts equals the unit cost and rate, respectively, of the unpartitioned rate.<sup>2</sup>

### (c) Overhead Cost Information

#### 1) Reasonableness of Overhead Loading Amounts

In accord with the Price Cap Rules for the pricing of new services, SNET has developed and applied a uniform overhead loading factor of 1.49 to each Expanded Interconnection rate element. Exhibits 13.1, 13.2 and 13.3 of SNET's tariff filing display the overhead loading factor that was developed using 1991 ARMIS data (See Attachment 2). The procedure used follows:

- a. A fully distributed cost factor (FDC) was developed by dividing the Special Access revenue requirement (at

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<sup>2</sup> Investigation Order, para. 18.

11.25 %) by the net investment in the Special Access category.

b. A Direct Annual Cost factor was developed by dividing the sum of the Plant Specific and Plant Non-Specific maintenance expense, depreciation, customer operations, return and taxes by the net investment in the Special Access category.

c. From the above two calculations the overhead loading factor was developed by dividing the FDC factor by the Direct Annual Cost factor. ( $.48821/.3275 = 1.49$ )

The above overhead loading factor of 1.49 was then appropriately applied to all rate elements, except the monthly floor space element, to obtain a fully loaded cost. Since SNET's factor of 1.49 is well within the Commission's benchmark of 1.6964 established for SNET, no further rate adjustments are necessary.

SNET has not developed comparable overhead loading factors for existing DS1 and DS3 rates. These rates were originally established under rate of return regulation and have been modified pursuant to the price cap rules. Since these rates were not developed using direct costs adjusted by an overhead loading factor, a direct comparison with DS1 and DS3 rates is not possible.

## 2) Closure Factors

SNET did not use a "closure factor" in the development of its interconnection rates.

(d) Sample Price Outs

Attachment 3 to SNET's Direct Case provides SNET's "price out." As directed on page 11 of the Order, SNET is also providing a diskette in LOTUS 1-2-3 format.

Individual Rate Elements

(e) Nonrecurring Charges for Recurring Costs

1) SNET did not use the present discounted value of recurring costs associated with the capital outlay in the development of its nonrecurring charges.

(f) Floor Space Charges

SNET's floor space charges were developed using a replacement cost methodology. This replacement approach approximates market based rates. The \$301 per square foot replacement cost was based upon actual cost data for recently constructed central office space in the HRFR05 and HRFR06 central offices. These offices are representative of offices in which customers would desire expanded interconnection. The average investment for central office space was developed in the following manner:

		<u>Assignable Building</u>		<u>Cost</u>
	<u>Date</u>	<u>Sq. Ft</u>	<u>Costs</u>	<u>Per Sq. Ft.</u>
HRFR05	1988	3,000	\$866,713	\$289
HRFR06	1989	<u>2,300</u>	<u>\$728,587</u>	<u>\$317</u>
Average		5,300	\$1,595,300	\$301

The average embedded investment for the central office buildings subject to expanded interconnection is \$73 per square foot. Since this embedded investment consists of pre-1960 vintage equipment, and is, on average, more than 30 years old, the investment clearly is not representative of current replacement costs or market based rates.

In addition to the costs for building space, SNET included the costs for house services and standard AC power for heating, lighting and air conditioning. These costs were appropriately included here to insure full cost recovery.

(g) Power Charges

1) The following procedure was used in developing the AC power costs used in the DC power rate element.

$$1 \text{ amp} \times 48 \text{ volts} = 48 \text{ watts}$$

$$48 \text{ watts} \times 24 \text{ hours} = 1,152 \text{ watts hr./day or } 1.152 \text{ KW hr./day}$$

$$1.152 \text{ KW hr/day} \times \$0.095 \text{ commercial cost of power/KW Hr} = \$0.10944/\text{day}$$

$$\$0.10944/\text{day} \times 365 \text{ hr/yr} = \$39.95/\text{year (used } \$40/\text{year)}$$

2) Not Applicable to SNET.

3) Not Applicable to SNET.

(h) Cross-Connection Charges and Termination Equipment Charges

1) SNET did not include repeaters in the cost to provision the DS1 and DS3 cross-connection service. Costs were developed

assuming that the customer would provide any repeaters required.

2) SNET is using a distributed (dedicated) system to deliver cross-connections between the SNET Toll Office and the Expanded Interconnector's enclosed space (see Attachment 4).

The benefits of this type of system are:

- (i) quick provisioning;
- (ii) provision of a trouble isolation point;
- (iii) elimination of the need to access the customer's point of presence ("POP") to provision added capacity; and
- (iv) the capability for customers to make their own channel assignments.

While this approach for providing cross-connections requires approximately \$2,000 per cage in additional investment, SNET believes that the provisioning and maintenance advantages clearly exceed the added costs.

If a centralized system were used to deliver cross-connections, sharing of DS1s and DS3s equipment bays between SNET toll areas and the POT would be possible. While this approach would avoid the \$2,000 investment, significant provisioning and maintenance drawbacks would result. First, the customer could not control the assignment of channels. Secondly, the dispatch of maintenance technicians would be necessary to establish cross-connections for new services and to disconnect discontinued services. Lastly, this approach would add an additional cross-connection point that would increase the potential for troubles.

3) SNET included a POT frame as part of its costs. The POT is required by SNET for the pre-provisioning of sufficient cross connects to meet the customers forecasted need without requiring access to the cage, for trouble isolation when a trouble is reported, and for the testing and turn-up of new services. Elimination of the POT frame would diminish SNET's ability to maintain objective service levels for interconnection customers.

4) Not Applicable to SNET.

(i) Security Charges

SNET has not imposed any security charges on interconnectors. The floor space allocated for Expanded Interconnection is located, in most cases, on the first floor and can only be accessed from the outside via locked doors which either lead directly into the Expanded Interconnection space or lead to dedicated corridors. Access from these areas to other parts of SNET's central offices is not permitted. An interconnector is given keys that will only open an outside door leading to its cage and the interconnector's cage. Interconnectors will not have access to the rest of SNET's central office. In addition, in those few instances where the Expanded Interconnection space is located on a floor other than the first floor, access to all parts of the building is controlled by keys. Again, interconnectors will only have

keys that open the door to the dedicated Expanded Interconnection space and their own cage. This being the case, SNET believes that these security measures are adequate, and, therefore, has not imposed additional security charges for interconnectors.

(j) Virtual Collocation Rates

This section is not applicable to SNET.

**B. Are the rate structures established in the LECs' expanded interconnection tariffs reasonable?**

(a) Rate Structure, Bundling of Rate Elements

SNET asserts that its rate structure and level of bundling are appropriate and cost-causative. The Itemized Cost Information included as Attachment 1 identifies relevant cost data in sufficient detail to justify SNET's rate structure and level of bundling. Petitioners' generalized arguments fail to provide a basis for rejecting SNET's proposed rate structure.

(b) Central Office Construction Charges

In developing its Central Office construction charge, SNET has included both common and interconnector specific costs in its rate. Common costs include central office renovation, asbestos removal (safety), and relevant Carrier

Services, Comptrollers, Business Services and Special Services costs. The interconnector specific costs include cage construction and point of termination and DC power construction. SNET's rates do not double recover common costs since these cost were spread over the total number of cages expected to be built during the five year forecast period.

## 2) Method To Recover Common Construction Costs

In developing the demand forecast for expanded interconnection service, SNET forecasted five years of data. Key demand components included the number of interconnection customers, the expected number and location of central offices used for Expanded Interconnection, and the quantities of DS1 and DS3 circuits that qualify for the new cross connect rate element.

Demand projections were developed using customer surveys, economic criteria and historical trends. In response to the Expanded Interconnection Order, SNET surveyed each of its existing major access customers (both carriers and end users), as well as other potential competitive access providers, regarding their anticipated Expanded Interconnection activity. SNET solicited information on central office locations, estimates of anticipated cage size, DS1 and DS3 demand levels and anticipated power requirements.

SNET also considered the cross elastic effect of reduced Special Access charges relative to the cost of establishing a physical Expanded Interconnection arrangement. Data was

extracted from SNET's Carrier Access Billing System (CABS) to identify Interexchange Carriers by central office, and from SNET's Customer Record Information System (CRIS), to identify end users who might be interested in Expanded Interconnection.

From the data compiled, the following demand forecast was developed:

<u>Rate Element</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Application Fee	10	11	0	2	1
Cage Construction	10	11	0	2	1
Floor Space (sq. ft.)	2,000	2,200	0	400	200
Power (amps)	600	660	0	120	60
DS1 connections	659	954	0	59	30
DS3 connections	41	39	0	0	0
Entrance Facility (ft.)	1,500	1,650	0	300	150
Riser (ft.)	3,400	3,740	0	680	340
Pulling & Splicing (hr.)	320	352	0	64	32
Engineering (hr.)	40	44	0	8	4

(c) Not Applicable to SNET.

(d) Charges Prior To Commencement Of Work

SNET requires interconnectors to pay an Application Fee prior to the commencement of construction activities. This one time charge recovers the nonrecurring costs associated with the initial engineering and design activities required to meet customer specifications. Costs included the one initial design and engineering labor associated with planning floor space, AC power, DC power, entrance facilities, conduit and riser capacity. The Application Fee will be refunded to the customer if SNET determines that it has insufficient space to meet the customer's request. This rate element is an appropriate and reasonable means for recovering costs incurred

specifically on behalf of the customer before actual construction is commenced.

e) Electric Power

SNET plans to provide and bill DC power in 10 amp increments. Most transport equipment placed into the caged area will require approximately 8 amps of DC power. The 10 amp increments allow for a reasonable surplus of power while, at the same time, not being excessive.

Although SNET considered metering DC power usage and charging for actual power consumed, it found this approach to be costly and administratively burdensome. The added costs of the DC meter, combined with the administrative costs of reading, recording and billing each customer for actual power consumed, would, in most cases, exceed the cost of the excess power provided to them.

(f) Not Applicable to SNET.

(g) Additional Costs

If a customer requests features, functions and/or enhancements in addition to what is specified in the tariff, those items will be provided on an individual case basis (ICB). This provision is necessary in order to meet the specific needs of customers that are not included in the tariff. This provision provides both the customer and SNET

the flexibility to provision newly developed capabilities in a timely and cost effective manner.

**C. Are the LECs' provisions regarding interconnection space size, expansion, and location reasonable?**

(a) Minimum and Maximum Space Requirements

SNET established a minimum and maximum floor space requirement of 100 square feet and 400 square feet respectively. These limitations were necessary because:

- (i) a standard central office building bay is 20' x 20' which can be readily subdivided into 100 square foot increments, thus insuring full utilization of each building bay;
- (ii) a caged area of less than 100 sq. ft does not provide sufficient space for equipment, access to the equipment for repair and required administrative work space; and
- (iii) smaller areas create increased access space needs wasting usable floor space.
- (iv) allowing one interconnector more than 400 square feet would limit the number of other parties that would have access to available space allocated for interconnection.

With regard to 400 square foot maximum, SNET has determined it to be sufficient for all known expanded interconnection customers. Should an interconnector require space in an increment of either less than 100 or more than 400 square feet, SNET will negotiate arrangements that are consistent with the underlying costs and rate structure for

the standard offering. These rates will be filed in the tariff on an Individual Case Basis.

(b) Not applicable to SNET.

(c) Orders For Additional Space

SNET will treat orders for additional space as a new order. This requires the assessment of the Application Charge and the Collocated Space Construction Charge. Other rate elements would only be assessed if the customer requested those functions. SNET did not contemplate a separate charge for additional space at a reduced non-recurring charge. Most, if not all, of the work activities required to provision new space are also required if an existing interconnect customer requests additional space. For example, the predetermination of space availability, the identification of customer requirements and the preparation of a preliminary design are still necessary when a customer requests additional space. Only after these work functions are completed would SNET be able to accomplish the work required. In the case where contiguous space was not available, the work effort would clearly be comparable to preparing a new space. Even where contiguous space was available, the work effort could not be completed until the customer's requirements were identified and a determination made as to how existing space would be modified to accommodate the new arrangements constructed.

(d) Contiguous Space

SNET's policy is to provide contiguous space for expansion where available. SNET will also provide direct cabling to connect non-contiguous spaces of the same customer. This policy is clearly reasonable because it is responsive to customer requirements.

**D. Are LECs' tariff prohibitions against expanded interconnection with dark fiber service consistent with the Special Access Order?**

Not Applicable to SNET.

**E. Do the LECs' tariffs prevent interconnector control over channel assignment on the interconnectors' networks and, if so, is such an arrangement reasonable?**

SNET provides a distributed or dedicated interconnection system to deliver cross-connections between the SNET toll office and the Expanded Interconnector's enclosed space. This distributed system allows the interconnector to control the channel assignments into their network. (see Attachment 4). In addition, it allows quick provisioning, a trouble isolation point and the provision of additional capacity without the need for SNET to enter the customer's cage.

**F. Are the LECs' provisions regarding warehousing or efficient use of space reasonable?**

Not Applicable to SNET.

**G. Are the LECs' provisions regarding notice to or from interconnectors in the event of service termination reasonable?**

(a) (b) Notice Period

SNET's tariff provides a six months notice period for notifying interconnectors of SNET's intention to terminate the interconnection arrangements in most cases.<sup>3</sup> The customer must likewise provide six months notice of its intent to terminate an arrangement. These notice periods are reasonable because it provides adequate time for both the customer and SNET to plan for alternative arrangements without jeopardizing the service capabilities of either SNET or the interconnector.

The only exceptions to the six month notice period to terminate service occur where the customer poses a threat of harm to SNET's operations, is in violation of insurance requirements or where there has been a taking by eminent authority. These conditions represent such material changes to the LEC/interconnector relationship that the notice period should not be applicable. In the case of a taking by an eminent authority, SNET's tariff provides for notification to the customer of the schedule required. Since the schedule will be beyond SNET's control, SNET will give the customer reasonable notice once it is received from the eminent authority.

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<sup>3</sup> SNET's understanding is that this interval is one of the longest proposed by the LECs.

**H. Are the LECs' provisions permitting them to terminate a collocation arrangement reasonable?**

SNET submits that its tariff language that specifies when SNET may terminate an Expanded Interconnection arrangement is reasonable. The instances when SNET would terminate service for violations of tariff conditions include the items discussed in Question G. above, i.e., for continued threat of harm to SNET's operations and for inadequate insurance coverage. SNET has demonstrated in the discussion of Question G. that these instances are reasonable. In addition, SNET would discontinue service for nonpayment or for the unlawful or abusive use of the service. These are common conditions which exist in most, if not all, access tariffs, and were in effect in SNET's tariff prior to filing Expanded Interconnection.

SNET submits that the type of violations identified in the tariff are material terms, and as such should result in termination of an Expanded Interconnection arrangement.

**I. Are the LECs' provisions regarding termination of collocation arrangements in the event of a catastrophic loss reasonable?**

SNET has not included new tariff language which would pertain only to Expanded Interconnection arrangements in regard to a catastrophic loss.

SNET believes it is unreasonable for the Commission to require it to tariff time frames which define how it would be required to react in the event of a catastrophic loss. By definition each catastrophe presents its own unique set of circumstances. The nature of the catastrophe would dictate the parameters within which one could operate. SNET would work cooperatively with all customers to restore their service on a nondiscriminatory basis as conditions permit.

SNET would restore the collocated space at no charge when it could reasonably do so. If the central office were to be irreparably lost, and the customer desired collocation in a different central office, then space preparation charges would apply. The customer's insurance should cover these costs.

If the interconnector is responsible for causing the catastrophic event, the interconnector should be liable for all resulting damages and costs.

**J. Are the LECs' relocation provisions reasonable?**

(a) Relocation Policy

SNET provides six months notice to the interconnect customer when the customer's equipment must be relocated to a different location.

(b) Conditions For Relocation

SNET does not specify the conditions for requesting the customer to move to a different space. However, this

provision would only be invoked when SNET required the space for its own use in providing communications service as a common carrier, when the building was being closed or sold, or in some similar significant instance where SNET's business plans would necessitate a move. This provision is reasonable because it permits SNET to reclaim space when necessary to fulfill its franchised obligations and to exercise its ownership rights regarding its real property.

(c) Charges For Relocation

Although the tariff does not specify whether charges would be applied, SNET would not apply charges to prepare the new collocated space when SNET initiated the move.

**K. Are the LECs' insurance provisions reasonable?**

As provided in SNET's Expanded Interconnection tariff, SNET requires collocation customers to obtain General Liability insurance in the amount of \$2 million, Statutory Automobile Liability insurance, Umbrella/Excess Liability insurance in the amount of \$10 million, Property insurance sufficient to cover replacement costs, Statutory Workers Compensation insurance and Employers Liability insurance in the amount of \$2 million. It is common practice for lessors to require such insurance from its lessees.

General Liability insurance is required to assure there are financial resources available for the payment of a claim

in the event a lessee is liable for damages arising out of an accident occurring on the lessor's property. Automobile Liability insurance is required to be certain any vehicles owned by the lessee that are on or near the lessor's premises are insured; this would apply to collocators who certainly will be making or directing deliveries to the job site, regardless of whether parking is allowed. In addition, obtaining such insurance should not be a problem since auto insurance is mandatory in Connecticut. Umbrella/Excess Liability insurance enhances the financial protection of the lessor. Property insurance covers the lessee's property on the lessor's site, thereby protecting the lessor from responsibility for indemnifying the lessee for damage to its property. Workers Compensation insurance covers injuries to the lessee's employees while on the lessor's property; this ensures the lessee has met its statutory requirement to carry such coverage, and eliminates the possibility of the lessor becoming a "principle employer" under the Workers Compensation Act. Also, this and the Employers Liability insurance lessen the likelihood of a liability claim against the lessor in the event a lessee employee is injured on the lessor's premises.

In the event a lessee is large enough and has the financial strength, lessors have accepted self-insurance as a means of funding those exposures normally insured through a commercial insurance carrier. The lessor typically requires evidence of the lessee's financial strength prior to the acceptance of any self-insurance. Of course, the safest

course for a lessor is to require commercial insurance; then the lessor can require the lessee to name the lessor as an additional insured on the lessee's insurance policies.

The amounts of insurance required by SNET are commensurate with sound business practice for medium to large companies. SNET itself has all the above insurances except Workers Compensation for which it is self-insured, and, at even higher levels than those required of the lessees.

SNET requires a lessee's insurance to be rated at A-. Such a rating is the minimum SNET feels provides reasonable assurance against the potential for insurer insolvencies. Such insolvencies have occurred with increasing frequency in the past few years and claims that occur today may not be reported, known about, or settled for several years. SNET's own insurers for the above coverages are A or higher (i.e. are higher rated than A-).

It is standard business practice for the lessors to require that a certificate of insurance, evidencing the existence of the required insurance, be provided to the lessor and the lessor be named as an additional insured on the lessee's insurance policies. SNET requires this certificate be provided prior to the commencement of work called for in the agreement; this is reasonable since it can be expected the customer and/or customer equipment will be on the premises upon commencement of the work.

**L. Are the LECs' liability provisions reasonable?**

SNET has not imposed specific Expanded Interconnection liability requirements in its tariff.

SNET's policies regarding any customer's right of action against SNET appear in the general regulations of the access tariff. SNET's liability regulations were in effect prior to the filing of the Expanded Interconnection tariff. They appropriately identify SNET's liability obligations for all access services. There is no reason to believe that expanded interconnection requires a different level of liability protection than do other access services. Moreover, SNET's liability regulations do not hold SNET harmless in cases of willful misconduct, as some petitioners have alleged regarding other LEC tariffs. No petitioners filed comments against SNET's liability provisions.

In response to the issue of reciprocal liability clauses, SNET submits that a reciprocal relationship does not exist. The customer is using SNET's facilities, but the inverse is not true, i.e., SNET is not using the interconnect customer's facilities. Thus, the standard liability provision traditionally applicable to common carrier services should apply.

**M. Are the LECs' provisions regarding whether to bill from their state or interstate expanded interconnection tariffs reasonable?**

Not Applicable - SNET does not offer Expanded Interconnection under state tariffs.

**N. Are the LECs' provisions regarding letters of agency reasonable?**

Not Applicable to SNET.

**O. Are the LECs' provisions regarding inspections of interconnector space and facilities reasonable?**

SNET's tariff provision for inspections simply states that the collocated space may be accessed for purposes of inspection upon providing reasonable prior notice.

Inspections may be necessary at times to assure compliance with technical standards, equipment and safety provisions.

There is no provision to charge for an inspection. SNET submits that this provision is reasonable on its face.

**P. Should LECs be permitted to include provisions regarding the payment of taxes and similar assessments by interconnectors?**

SNET does not include a provision in its tariff requiring interconnectors to pay, before delinquency, all taxes and other charges assessed on the interconnector's operators and equipment located at the leased physical site.

Respectfully submitted,

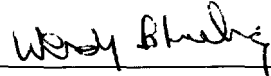
THE SOUTHERN NEW ENGLAND  
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August 20, 1993

CERTIFICATE OF SERVICE

I, Wendy Bluemling, hereby certify that SNET's Direct Case has been filed this twentieth day of August, 1993 to all parties listed on the service list below.



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Wendy S. Bluemling

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